RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Aug. 16, 1995 **LETTER 1180**

"This is truly a new era in which formerly well-established standards of value for securities no longer retain their old significance." Quote from Col. Leonard Ayres, chief economist, Cleveland Trust Co., August 25, 1929.

THE PICTURE: One of the extraordinary phenomena of today is the emphasis on the economy as a gauge of the stock market. On TV, on the radio, in the pages of the newspapers, we read that the economy looks fine, and therefore the market has nothing to worry about. I even heard one well known analyst (who should know better) announce that since he sees no recession on the horizon, he sees no reason why anyone should worry about the stock market.

Ah yes, the economic cart again being placed before the stock market horse. Unfortunately, it just doesn't work that way. Here's how it does work. The market's job is to forecast, to look ahead. If the stock market sees trouble on the horizon, it backs off accordingly -- or it may even go into a secondary reaction. If the stock market sees BIG trouble ahead, if it sees things getting out-of-control on the downside, it goes into a primary bear market. Historically, the stock market tends to make its move a few weeks to many months ahead of turns in the economy.

Except for the 1929 instance (when the economy topped out one month ahead of the stock market), I don't know of another time when by watching the economy you could have foreseen that the stock market was in trouble. By the same token, of course, taking the pulse of the economy will not help you to know when a bear market is ending and a new bull market is about to be born.

Turning to the current market, the Averages now appear to be playing "leap-frog." When the last Letter was written, the Transports had recorded a new high unconfirmed by the Industrials. Then, on August 2, Industrials rallied to a new closing high, but this time Transports failed to confirm. In fact, I can't remember seeing so many days in which the Averages have diverged -- one ending up while the other ended down.

Probably, the **easiest** way to read this market is via my **Primary Trend Index.** The PTI is a composite of eight "action-of-the-market" indices and averages. As such, it's almost impossible for the PTI to be "wrong" on the market's direction. Most recently, the PTI has recorded a steady procession of new highs. As long as this continues, I will consider the primary trend as bullish.

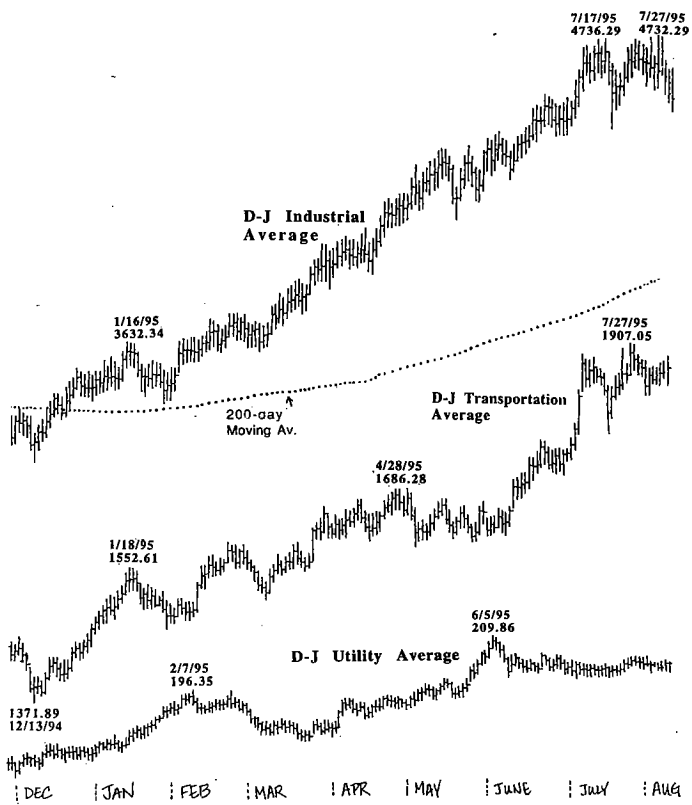
I can't explain exactly why, but PTI trends, once established, tend to last for considerable periods of time. Another way of putting it is that over the years the PTI has generated surprisingly few whip-saws. Once the PTI moves above its 89-day moving average, thereby turning bullish, it tends to continue in the bullish direction for many months, sometimes for years. By the same token, once the PTI breaks decisively below its 89-day moving average, turning bearish, it usually continues south for a considerable period of time.

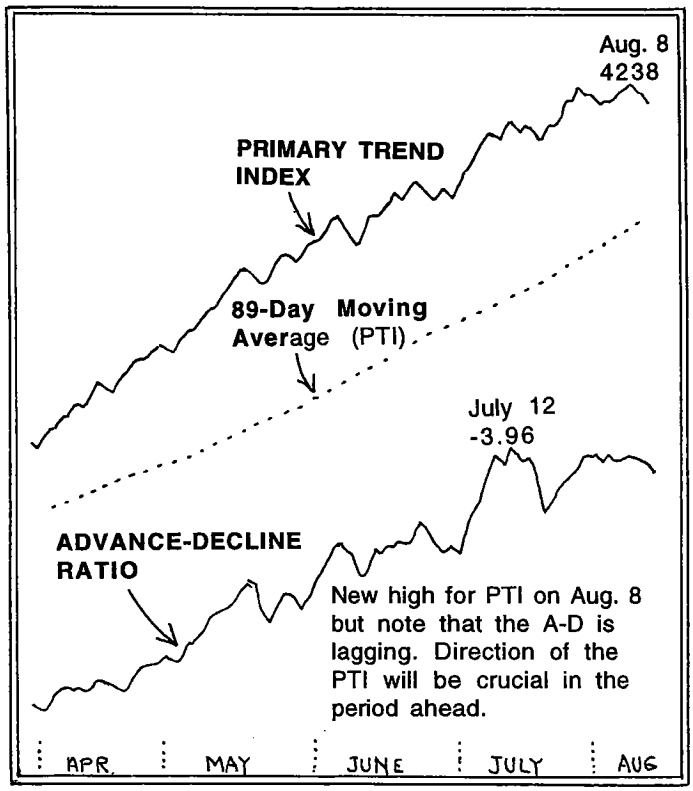
For the record, the PTI gave a bull signal last February 2. It's next signal must obviously be a bear signal. A bear signal will be rendered when the PTI finally breaks below its 89-day moving average. So far, as you can see on the page 2 chart, the trend of the PTI remains bullish. **NOTE:** For my latest views on the market, see the page 6 Late Notes; also please be sure to read the section on the strong dollar.

Aug. 4 DJIA 4683.46; PTI 4231; A-D Ratio -4.11
Aug. 11 DJIA 4618.30; PTI 4223; A-D Ratio -4.36
Dow Yield: 2.46%; Dow Price/Earnings: 14.4
Dow 200-day MA: 4160; Dow 30-day MA: 4678
Dow Times Book Value: 3.53; PTI 89-day MA: 4157
Percentage of Undervalued Blue-chips: 6%
Gold 200-day MA: 384.26; Gold-PTI: 703

Duration: Nobody produces better market research than Walt Rouleau of *Growth Fund Guide,* Box 6600, Rapid City, SD 57709. In his latest issue, Walter applies a 23.4% upside filter to the Dow (this tabulates all advances in history of 23.4% or more). There have been 30 such rises, which means that there's been one every 3.3 years. The current, or 30th rise, started on Oct. 11, 1990, and is now **58 months old.** That makes it the fourth longest (in duration) 23.4% filter rise in history. Only three previous filter rises have lasted longer, 1921-29, 1949-56 and 1982-87. The first was followed by a 89% bear market, the second was followed by a 19% bear market and the third was followed by a 36% bear market. So it'll be interesting to see what and where we're headed this time.

Note on Values: There's been a lot of talk recently to the effect that today "dividends don't matter" (or don't matter as much) because corporations would rather buy back their own stock than pay out dividends -- or that the dividend *payout* is currently very low, and therefore, the yield is not as important, etc. The following is from *Investment Quality Trends* out of La Jolla: "Value in the stock market is determined in the end by the return to the investor. The bankable 'return' on which investors can depend

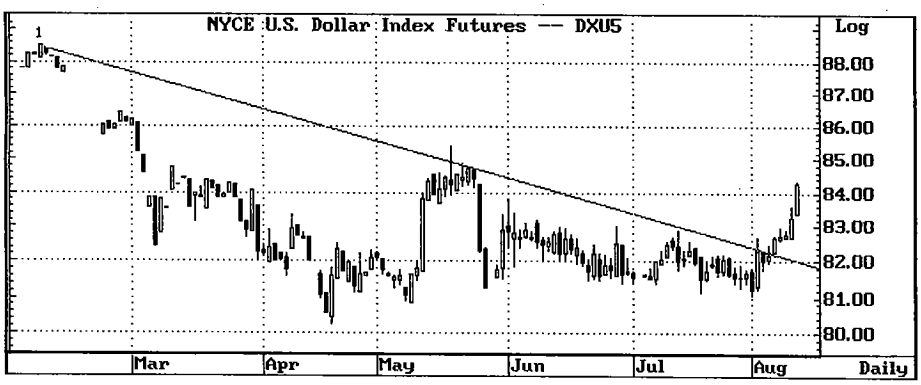


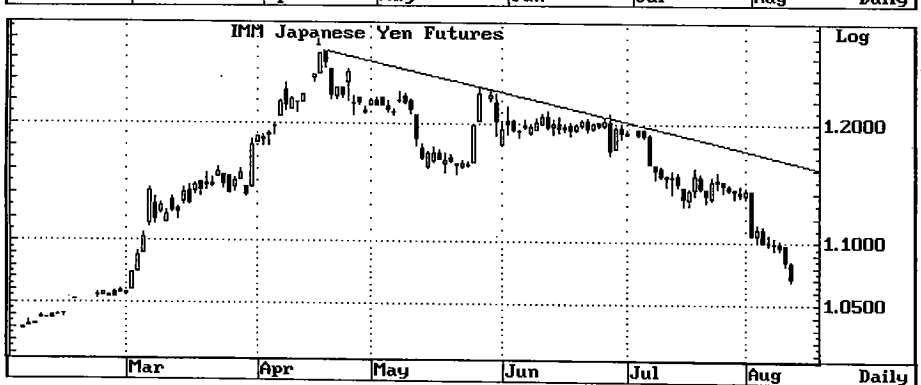


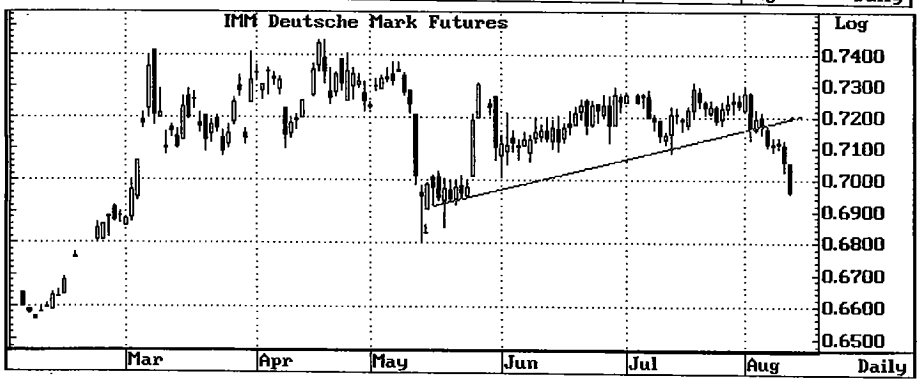
is the cash dividend. Therefore it is dividend yield which most accurately and most reliably identifies value in the stock market. Through the sharp eyes of history, the D-J Industrial Average now has climbed to levels of investment value which have not been seen in 90 years. The dividend yield has fallen to a scant 2.4%; the price/book value ratio is at an all-time high of 4-to-1; the number of Undervalued blue chips has fallen to 5% of our total -- the lowest such figure in our 29-year publishing history. Although the stock market can not be precisely timed, relative degrees of value can be identified and investors can know when the market offers a greater degree of risk than reward. This is one of those times. . . . Investors who care about safety of capital and preservation of profits identify degrees of risk and reward through historic benchmarks of value. Those benchmarks currently signal a vastly Overvalued stock market with great downside risk, regardless of what anyone thinks to the contrary."

Russell comment: Charles Dow placed greatest emphasis on an appreciation of values. "To know values," he wrote, "is to know the meaning of the market." Dow placed primary emphasis on yield as a gauge of value.

INDEXING: Investors obviously love the market action, love it so much that they're piling into the so-called index funds (these are the funds that are constructed so that they mirror the stock market). Seven major index funds have boomed over the past year, boomed so much that their total assets have risen to more than $22 billion (up 50% in a year). Half the equity money coming into the giant Vanguard group is now going into their index fund.







UP, UP, THE GREENBACK: Could it be happening? Yes, it is happening. The Dollar Index has rallied to its highest level since late-May. At the same time, the yen has plunged (against the dollar) to its lowest level since last March -- see accompanying charts. Of course, this is what Japan has been praying for and it's what the US has "sort of" been hoping for as well. The reason the US and Japan have wanted a lower yen -- the "expensive" yen has been killing Japanese exports and hurting Japan's economy in general. And the last thing the US wants to see is a possible meltdown of the Japanese banking system (and with Japanese real estate prices down almost 60% since 1990, the deflationary effects of the real estate action have put many Japanese banks in a precarious position).

Turn to the chart of the "mighty" D-mark. Here too, we see the mark breaking below its July low, a break which has taken the mark to its lowest level since early-June. Unlike the Japanese, the Germans will take any pain rather than see their precious mark head south.

And I ask myself, is something new happening? Is the dollar about to fool the experts? Question -- how strong could the dollar become? Who knows -- "been down so long, ah don' know what up looks like any more." And with many traders and institutions still positioned for continued dollar weakness, *the dollar could surprise-* -- on the upside. Remember, Washington wants a "slightly stronger" dollar, not a REALLY strong dollar. And you know how the markets love to cross-up the authorities.

On the other hand, Japan wants a weaker yen. Consequently, the Japanese central bank is now cranking out yen in large quantities. It's also intervening in the foreign exchange markets. In the supply/demand equation, the

more quantity of an item you're creating, the more pressure you're creating to force that item down in price.

A stronger dollar would hurt US exporters, particularly the kind of BIG corporations that are represented by the Dow stocks. The big international stocks garner a very large percentage of their sales and earnings from exports. And remember, one of the few outstandingly strong areas of this weak economic recovery has been exports -- so persistent dollar strength might not be the bargain that so many investors have been hoping for. **Conclusion:** let's keep our eyes focused on the dollar. A strong dollar would be good for the nation, but not necessarily good for the stock market. The dollar -- it could be the big surprise in the period ahead.

INVESTMENT POSITION: The bull is in the box, even though this market appears to be running out of upside momentum. Wheezing a bit is one thing, but coming down with the bear's disease is another. The latter has not happened yet.

In June, *stock market mutual funds reduced their cash balances to 7.8% of total assets, the lowest in 17 years,"* notes *Market Logic* of Ft. Lauderdale, Florida. The Russell question: with mutual funds that bullish, do we want to bet that they're right -- and do we want to position ourselves with them? Personally, I don't.

I have an old rule which I believe applies particularly well at this time. It goes like this -- "If you're not sweating when you're buying, you're probably buying wrong." In other words, when the stock market is a great, low risk buy, it usually requires all your nerve and strength to buy. The reason: great stock buying periods also correspond with periods of seeming disaster. During such times, all your senses tell you not to buy. But during those periods stocks invariably represent great values and are already moving into strong hands.

On the highway, speed kills: in the markets, impatience kills. I'm watching and waiting. Why? Because somewhere ahead we're going to see today's 2.4% Dow yield head for tomorrow's 6% Dow yield. Impossible? Nah, it's happened after every bull market since the Dow was first tabulated.

QUESTIONS: (1) Can Bill Gates be stopped or will Microsoft ultimately own the entire software world including the Internet? (2) Can Michael Eisner be stopped or will we all end up as Mouseketeers? (3) Can Warren Buffett be stopped or will he die owning all the money in the world? (4) Can Asia be stopped or will it ultimately be producing 99% of the world's goods? (5) Can Clinton be stopped or will the Whitewater lies and obfuscations go on even longer (God help us) than the Simpson trial?

TRENDS: The disgust of the younger generation (so-called generation X) with BIG government is apparent. Here's how a front-page piece in the July 26 *USA Today* starts: *"Generation X has had enough of baby boom politics. As disillusioned twenty-somethings see it, Democrats have buried them under $5 trillion of debt to support social programs that have failed. And Republicans want to intrude upon their private lives by censoring the Internet, restricting abortions and arresting pot smokers. So many of the 41 million members of Generation X -- the so-called baby-busters born from 1965 to 1976 -- are turning to an old philosophy that suddenly seems new: libertarianism, a mixture of liberal views on social issues and a conservative bent on pocketbook concerns."*

Dovetailing with Generation X's views, the Russell view is that today's huge and powerful markets (particularly the currency markets) plus the new electronic communications have made governments **increasingly irrelevant.** Currencies are now more powerful than governments or central banks. The Internet is sending out information that many governments would like to hide. TV is showing people around the world what's happening, and the stock and bond and currency markets are now so huge that they can easily force any government's hand.

All this is in line with the "get rid of big government" trend. The current sentiment seems to be, "Get the government out of my way, out of my hair, and let me get on with my life." Frankly, as far as I'm concerned, this new philosophy is the best thing that's happened to us in years. It's taking us back to the philosophy of the Founding Fathers. The writers of the Constitution harbored a deep distrust of government -- the bigger the government the greater their distrust.

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With much of the world turning democratic (even China is feeling the pressure), governments are being forced to be more responsive to "the people" and their votes. This means that when economies flounder, politicians are pressured to try to "turn things around." Their first response is to re-inflate, to "reliquefy," to print more money. This is what's happening in Japan now, and it's already producing a weaker yen. And since the Japanese real estate bubble has burst, if the new reliquefication program generates a bit of inflation, the Japanese will not object.

Speaking of Japan, a few cynics (Richard Russell, for one) are thinking that Japan has now crested, it's gone over the top. The era of Japanese superiority in autos and electronics has probably seen it's best, the era of Japanese bank superiority has passed. In short, Japan is now in trouble, it's in recession and (unheard of) unemployment is rising. Only a few years ago "experts" were predicting that Japan would be on a par or even pass the US economically and that the "US should become more like Japan," now it appears increasingly certain that the experts were wrong. Japan will not rule the world. Japan, as a matter of fact, is struggling to keep its head above water. How things change!

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I've been writing about S. Korea for the last few years. S. Korea is now the world leader in production of memory chips; it has the greatest number of PHDs per capita of any nation; it is a huge producer of autos and electronics, and it has one abiding ambition -- to *beat Japan* (Japan cruelly ruled and exploited Korea from 1919 to 1945). S. Korean companies have just bought control of the US's Zenith, and the Koreans have made an investment in Spielberg's Dreamworks. A Korean company is opening a $1billion chip factory in Eugene, Oregon.

I think what we're seeing is the beginning of the era of tough competition and massive production out of Asia. China is booming, this despite the fact that the average wage in China is below $1,000 a year. India is increasingly capitalistic and productive. Here's an interesting comparison and a hint of the future -- last year the US sold 4,000 autos to S. Korea, while S. Korea exported 400,000 autos to the world. My prediction -- it's only a matter of time before North and South Korea are united. It's only a matter of time before S. Korea will be compared with Japan as a world-class producer of all kinds of technical products.

We've been told of the massive markets awaiting the West as Asia comes to life. But I'm thinking about the massive production of goods which will be coming out of Asia. And where we used to buy 10-cent toys that were "made in Japan," we now buy competitively-priced high-quality goods of ALL kinds, goods from China, Taiwan, Vietnam, Japan, Hong Kong, S. Korea, Malaysia, Singapore.

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Here is something I've been mulling over. I wonder whether the current huge US bull market has been rising to discount the peak, the ultimate peak, of Western strength and dominance? I wonder, when this bull market finally tops out and the bears take over, whether the next bear market won't reflect the slow but persistent decline of the West.

If this thesis is correct, then the next bear market could be a shocker. It will be a watershed bear market. It will be a bear market that will finally confirm the pessimistic "cyclical forecasts" of the now discredited "Kondratieff Wave" bears and the Elliott Wave bears. I keep remembering that old adage, "The stock market always does what it's supposed to -- but never when."

As I see it, the sentiment among US investors and the public is becoming ripe for a huge bear market. Consider this -- *before a major bear market can start, a massive amount of stock must be transferred from Wall Street to the public.* In other words, before a bear market can start, stocks must move into "weak hands." A prerequisite for a great bear market is that the stock is in the hands of the public, and the only way that can occur is in an atmosphere of extreme optimism. This, by the way, constitutes one of the *great paradoxes of investing,* namely, bear markets are born not out of pessimism, but out of intense optimism. Ironically, big bear markets only start when the idea of a bear market is considered well nigh impossible.

NOTES & QUOTES: The final insanity? Netscape, another Internet server and Worldwide Web browser, drove Wall Street to a state of hysteria by being priced at 28 as an IPO but selling on the day of issue as high at 75. Two days later NSCP was 51. Meanwhile, Marc Andreesen (its 24-year old computer genius) was quoted as saying, "There are 300 garages in Silicon Valley right now where people are working away right this minute --while I'm sitting here having coffee -- developing technology that's probably quite a ways out in front of what we're doing. If we slow down, somebody's going to eat our lunch." **Russell comment:** The action on NSCP is just another sign of froth, greed, and the feeling that Wall Street is the East Coast's version of Las Vegas.

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NBC shocked the broadcasting world by bidding $1.27 billion for the TV rights to both the summer and winter Olympics for the year 2000. This was a 54% increase over the previous record bid for Olympic rights. Fearing they might be slipping, NBC got the jump on CBS and ABC. It's all part of the increasingly fierce competition in the world of entertainment.

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Last week I got a call from a film producer. He complained that the viciousness of the people he has to deal with in Hollywood and the craziness of the film business is making him want to get out of the industry. And it's true, the reason Hollwood is so ruthless, so nasty, is that it's so darn difficult. Consider this: you pay a million for a script, you pay $15 million for a top star who supposedly can "insure" that the picture will be a success, you spend four months shooting the picture (amid all sorts of arguments, pressures, even law suits), then you pay $7 million for advertising and distribution. The picture's cost -- $45 million. The picture comes out, the critics are luke warm and the public hates it -- all that money and effort and aggravation and time -- and the picture loses money. Tough business? It's as tough as they come, and yet everyone wants to get into "the glamorous business of making movies"; (it reminds me of when I got out of college in 1946 everyone wanted to get into the "glamorous business of advertising." My first job after getting out of the Air Force was with an advertising agency, an agency that specialized in movie ads. I hated it, and left after six months).

Meanwhile, comic Jim Carrey set a new standard by landing his second $20 million film contract in two months courtesy of Columbia. Not to be denied, Stallone signed with Universal for three pics to be announced for a grand total of $60 million (now if he could only find a lady he really likes). Poor Mike Tyson, out of prison and already $35 million richer for a series of upcoming fights. His first fight will be with Peter McNeely, a college-educated white guy from a good neighborhood (can anyone remember the last time that's happened in the fight game?). Peter, a 25-to-1 underdog, has been called "The Great White Hopeless," which is unfair. I'd like him to give Mike a tough fight.

The above guys might be interested in incorporating in tax havens. British Virgin Islands, a Brit colony for 123 years and stable -- no corporate taxes. Western Samoa doesn't even require a financial statement and no corporate taxes. The Bahamas impose no corporate taxes and near to the US. Finally, there are the Cayman Islands (a British Colony) with very low fees and lots of beautiful beaches. The foregoing are via research from *Business Media, Int.*, 239-241 Wing Lok St., #301, Hong Kong.

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Is this the crowning irony? Communications and the power of free-market economies are bringing down the dictatorships of the world one by one. Soviet Communism has collapsed. North Vietnam won the war and took over the country. Now their dictators are trying to run Vietnam as a kind of dictatorship/free market mix. The same is true of China. Myanmar (formerly Burma) is giving way to the free market. Was the Vietnam War worth fighting (and losing)? It looks increasingly as though the whole bloody mess was a wasted effort (as McNamara finally admitted).

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A bunch of left-of-center revisionists have emerged along with half a dozen new books which explain why we didn't have to drop the atomic bombs on Japan. As far as I know, not one of these revisionists ever put in any combat time during WW II. The revisionist-writers seem unaware of the enormous and tragic casualties the US took on Okinawa, Tarawa, Iwo Jima, Peleliu, and on and on (50,000 dead or wounded at Okinawa alone). The one thing the allies learned from those terrible island battles was that the Japanese were fierce, fanatic (often suicidal) fighters. To a majority of Japanese soldiers, surrendering was tantamount to treason. Personally, I'm convinced that a US attack on Japan itself would have produced hundreds of thousands or even a million US casualties. Today, revisionists don't even have the guts to refer to V-J day, they use the politically correct "end of the war in the Pacific." This from a Japan that has never admitted its aggressions and cruelties.

OK, cut to Richard Russell. To me, having finished combat in Europe (on a 30-day leave) and heading for combat in Japan, the atomic bomb and the ending of the war was a blessing (as it also was, I might add, to all my buddies). So to the revisionists, I say, "Dream on, prattle on. Conjure up new reasons why Japan was ready to surrender and why we shouldn't have used the bomb." I place the atom bomb revisionists roughly in the same category as those who claim that the Holocaust never happened. By the way, Winston Churchill observed that the decision to use the atomic bomb against Japan was "no decision" since it was the object of virtual consensus among both US policy makers and the allied high command. And now it turns out that Japan hoped to use an atomic bomb against the US, but the US built their bomb first (the last from Tatsasaburo Suzuki, Japanese physicist, who headed a 50-man Japanese team). At the end of the War, a poll showed that 85% of Americans agreed that we should have used the bomb. On to the revisionists.

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Wonder why our President hasn't said much about the greedy pigs of the 1980s who dared to rake in tons of money and grow wealthy? Well, the truth is that the Prez and his wife did a little raking in of their own, as per Whitewater and as per Hillary's incredible luck with cattle futures. At any rate, this cartoonist has it right. Using your brains, working your fanny off, climbing up the corporate ladder, it's downright un-American, and those caught should do a spate of jail time.

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The *WSJ's* continuing editorials on the Clintons and Whitewater are terrific. From the August 9th editorial: *"The evidence mounts that in reaction to Whitewater the White House grabbed every level of power it could reach to distort and dissemble, not because the*

stakes were so high, but simply because that's the way they'd learned to behave back in Arkansas." Russell message to Clinton: They used to start fairy tales with "Once upon a time. . ." now they start with "When I'm elected. . ."

Russell comment: with it all, the most disheartening news is that Clinton has a good chance of being re-elected in '96. The *WSJ* notes that Clinton's "disapproval rating" is declining, even if his "approval rating" continues to remain in the 40s. And I wonder if Americans don't really want a split government with Congress ruled by one party and a President in the other party. That way, little gets done, and as far as Americans are concerned, the less the politicians do, the less harm they do. The mood of national frustration with what's going on was headlined in the Aug. 2 *Christian Science Monitor.* They quoted one protester as saying, "The US political process is so out of touch with what grass-roots folks need in America. The people are fed up. We wanted change and what we got was 'Republi-crats'."

Let's face it, even the Republicans aren't doing what they promised to do, which is shutting down a number of useless Government agencies such as the Commerce Dept., the Dept. of Energy and the Appalachian Regional Commission and the Office of Technology Assessment. No, what they're doing is taking a little off the top. And everyone knows that if you don't KILL an agency, then in due time it will revive, and its expenses, one way or another, will climb skyward. Let's put it brutally - - you don't trim a government agency, you shut it down.

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Jack Smith, CEO of General Motors on the subject of marketing: *"At GM we do a lot of bench marking. As far as I'm concerned, when it comes to marketing, the company we should be bench marking against is Harley Davidson. Anytime a company can get its customers to tattoo its name across their chests, that company is doing something right!"* **Russell comment:** Great quote, but remember, outlaws were stitching Harley tattoos on their chest years ago when Harley was a struggling company, on the verge of bankruptcy.

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This clip from London's *Financial Times* offers proof of what I've been saying all year. Asia will not only be a source of demand -- it will also be a tremendous source of supply, and I mean low-priced, well-made goods including, of course, high-tech merchandise.

INTERNATIONAL NEWS DIGEST

Chinese exports surge by 44%

China's exports surged by more than 44 per cent in the first half of the year compared with the same period last year, but officials are warning that such strong export growth will be difficult to sustain.
Mr Zhou Jie, of the ministry of foreign trade and economic

Clinton announced last week that the deficit was being reduced by about $33 billion. Not according to my figures. Each week I tabulate the additions to the national debt. And I'm sorry to say it, but the latest figures look like this. The current national debt is $4.954 trillion. Exactly one year ago the national debt was $4.648. One year additions to the national debt are therefore $306 billion. If Washington is really cutting the deficits, I don't see it. You know what they say, "Figures don't lie, but liars can figure." and the pols in Washington are doing a awful lot of figuring these days. Fact: we're still adding to the national debt at the rate of $1 trillion every two years, and I don't see any end to it.

As far as Newt and the boys eliminating the federal deficit, it ain't going to be easy. Newt is finding out that ambition is one thing, but getting bills through Congress is another. And the voters are finding out that Bill Clinton is no champion of change. Hardly, in fact Clinton is turning out to be the "Status Quo President."

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The July 31 *WSJ* contained a front-page article on corporations making lump-sum payments to workers and what happened to those lump sums. To an amazing extent, workers "blew" their entire lump sums. Wives would buy big cars, men would buy pick-up trucks or some other toy, and in short order the lump sum payment was history.

The fact is that the savings rate in the US is one of the lowest in any industrialized nation. The reasons -- Social Security, faith in the government, and the feeling that in modern America everybody has a right to the good life. So if a chunk of money comes in, well, you're entitled to enjoy the good life just a little bit sooner.

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Steve Wynn is one of the giants of Las Vegas. His Mirage operates four resort casinos with more than 8,000 hotel rooms. The four are the Mirage and Treasure Island on the Vegas strip plus the Golden Nugget in downtown Vegas and the Golden Nugget in Laughlin, Nevada. On top of that, Mirage is going to spend $1.3 billion to build two more big hotels on the Vegas strip. One will be Bellagio, which in Italian means elegant relaxation. The other is the Monte Carlo, a joint enterprise with Circus Circus. Bellagio will have 100,000 square feet of casino space plus huge convention facilities. Monte Carlo will have 3,000 rooms, an 88,000 square foot casino, a big "look" and a village of shops. Mirage also plans to do something in Atlantic City and possibly in Bridgeport, Conn.

Speaking of Las Vegas, the state of Nevada (blessed by no taxes plus modestly priced housing) is now the most popular state for retirees. Between the years 1990 and 1994 the growth in new residents over 65-years old was a whopping 30.2%. Second place went to Alabama with a 27.1% increase. Third Hawaii up 14.8%, and fourth Arizona up 14.7%. Other states booming with the over-65-agers are Utah, Wyoming, Colorado, New Mexico, Delaware and N. Carolina (all up over 10%).

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Russia's Dying: Nobody's certain why, but in the last decade the death rate in Russia has doubled. Russian male life expectancy has dropped in the last ten years from 64 to 57. Deaths in Russia are almost twice the rate of births, and this has never in history happened before -- anywhere. If current conditions persist, nearly 50% of today's Russian youth will not even make it to the retirement age of 55 for men or 60 for women. Life expectancy for American men is 72 and for women 79. One theory is that Rubella is a possible cause. Between 1985 and 1989 the US had 427 cases of Rubella. Last year alone Russia had 360,470 cases. Children should be vaccinated against Rubella.

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They may not be good for you but boy, do they sell. I'm talking about those juicy burgers. Today a massive price war is on. Who are the big sellers? Here's the list: McDonald's has a giant 41% of the business with sales of $14.9 billion. Second is Burger King with 17% of total sales and sales of $6.1 billion. Third is Wendy's, 11% and $3.9 billion. Fourth is Hardees at 10% and $3.4 billion. Fifth is Jack in the Box at 3% and $1 billion. McDonald's, by the way, now generates almost 50% of its profits from overseas.

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Health news: (1) **Soy** products can substantially lower cholesterol levels. Personally, I eat soy burgers, soy sausages, tofu, and what's more, I even like them. (2) **Melatonin** helps you sleep, and may boost the immune system, protect cells from free-radical damage, prevent cancer, extend life. I take 3 mg. every night. Big article about Melatonin in the Aug. 7 issue of *Newsweek.* Melatonin is cheap and can be bought at health food stores.

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The *Economist* headlined an article casting doubts on the Disney/Cap Cities merger and, in fact, on mergers in general. They noted that many companies are now downsizing, getting rid of unprofitable divisions or divisions that don't fit. The article stressed that it's often better for a company to specialize and stick to what it does best. The *Economist* listed many past mergers that have not worked or have come apart since.

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One of my neighbors is a university professor and a well-known Constitutional expert. He just sent me a section of a book he had written, and the piece goes into a detailed explanation of how the politicians subverted the Constitution's explicit instructions on money. Almost all the Founding Fathers warned against "legal

tender" paper money, money backed by nothing. The Founders had experienced the collapse of the ill-fated "Continentals" from which came the expression, "not worth a Continental." The story of how the Supreme Court decided that (fiat) paper was to be legal tender is amazing and disheartening. It's one of the great scams of American history. And just think -- now we have a private agency (the Fed) that has the power to create legal tender paper (we call them dollars) out of thin air. Alexander Hamilton would turn over in his grave.

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New laws: New Zealand says that new immigrants must pass an English language test that is so tough that some New Zealanders would fail it. Stated Roger Maxwell, Immigration Minister, "We have got more than enough of young New Zealanders who aren't reaching an appropriate level of competency in the English language. We are not going to select people who are below the average New Zealander's ability (can you imagine what would happen if the US tried to pass a law like that?). It also explains why NZ is rapidly becoming the new "country of choice." . . . . Beijing just passed a law banning dogs that are more than 35 centimeters high. Why? Beijing residents and health officials complained about the dogs' mess and about the danger of dog bites.

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Few Americans realize it but the rapidly expanding Hachette Filipacchi Magazine empire is owned by the huge French weapons-communications conglomerate, the Lagardare Group. Among their magazines, Elle, Decor, Mirabella, Premiere, Family Life, Video, Boating and Car, Car and Driver, Metropolitan Home, Woman's Day. Their newest venture, glamour-boy John F. Kennedy's new venture, George, a magazine about the people and events behind politics. George will land on the news stands in September with a huge printing of half a million copies.

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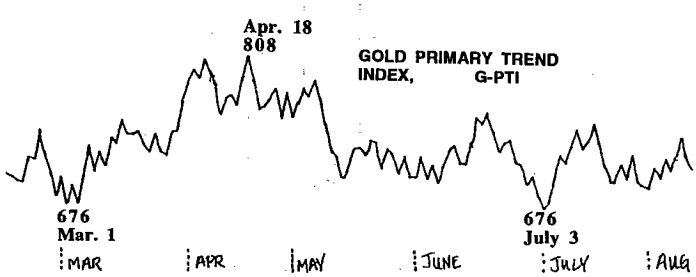
Pyrford's two Laws (from Pyrford International, NYC): **First law:** For every economist, there exists an equal and opposite economist.
Second law: They're both wrong!

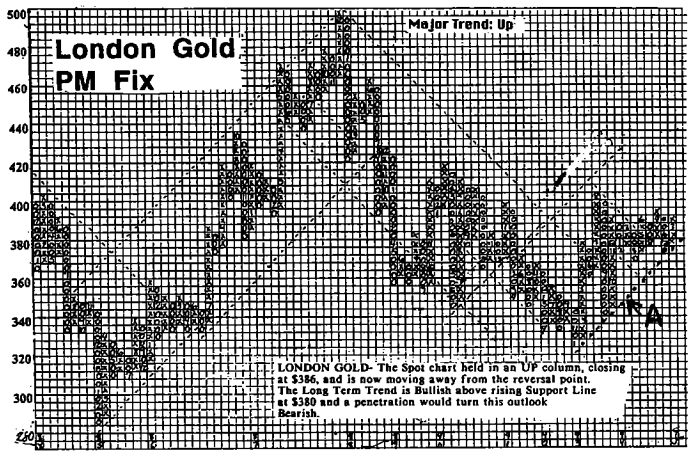
* * * *

The computer and software jokes are starting. Did you hear that Microsoft fired its cleaning service? They wouldn't do windows. . . . The young wife filed for divorce after only six months. She sobbed to her lawyer, "We met through a computer service, and I still can't see what that damn machine saw in him."

GOLD: There are two ways of looking at gold at this time. One way is that nothing, absolutely nothing is happening. This is illustrated by the chart of my Gold-Primary Trend Index (G-PTI). As you can see, the the G-PTI hit a low of **676** back on March 1. It then rallied to an April 18 high of **808,** only to fall back to a July 3 "double bottom" again at **676.** Since July the G-PTI has rallied and declined aimlessly.

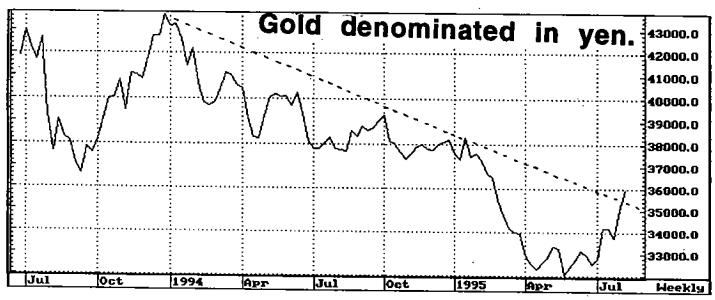


The other way of looking at gold is via this point & figure chart. Here we see the January 1993 low of 328, then a series of higher lows. So far, gold has held persistently above the rising trendline marked "A" on the chart. Thus, from a P&F standpoint, gold has formed a bullish pattern -- all that is needed is some action. The obvious action needed is a move to 400 and above. A breakdown would occur on a gold decline to 372 (chart courtesy of Chartcraft, Box 2046, New Rochelle, NY 10801).


London Gold
PM Fix
Major Trend: Up
LONDON GOLD- The Spot chart held in an UP column, closing at $386, and is now moving away from the reversal point. The Long Term Trend is Bullish above rising Support Line at $380 and a penetration would turn this outlook Bearish.
A

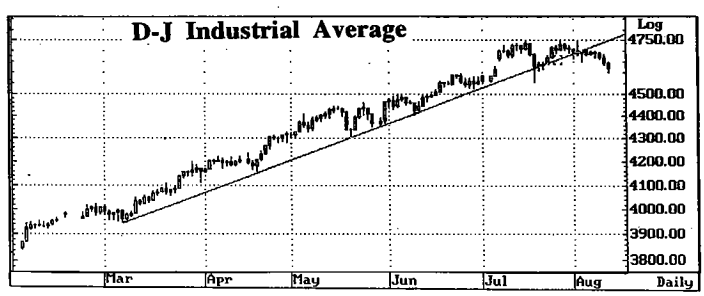
So far, neither stock market advances nor declines has affected gold. Even more surprising, neither dollar advances nor declines have budged gold. What will it take? My guess -- real distrust of paper currencies. When would that happen? My guess again -- when the world either inflates strongly or deflates strongly. Either trend (if major) would almost send worried investors into gold.

One interesting development: with the new persistent weakness in the yen, the yen/gold ratio is beginning to look interesting. Recently, gold was at an historic low price in terms of the yen. The picture could be changing, as note the chart. After all, if you're Japanese and your currency is sinking, where do you go? Dollars, D-marks, gold? Maybe some of each.



LATE NOTES: I keep an advance-decline line for the 30 Dow Industrial stocks. The entire rise from the Dec. 8 low to the July 12 high was 322 points on my Dow A-D line. Since the July 12 high, the Dow A-D has lost 86 points. This is by far the biggest loss in the Dow A-D since the advance began on Dec. 8. Because of this breakdown, it will now take considerable Dow upside action to bring the Dow A-D back to and above its July 12 high. Personally, I suspect that we've seen the high for the Dow A-D. If so, this market is in trouble, since new highs in the Dow (if they occur) without confirmation by the Dow A-D will render this situation increasingly bearish from a technical standpoint.

I've included this log chart of the Dow (daily), taking the Dow back to February. The rising trendline has been contacted by the Dow seven times since March, so I consider this trendline very valid, very important. In August the trendline was broken. What does this mean? It means that the upward rate of advance has been broken. The question -- how much selling pressure will now be generated?



NEXT MAILING: Aug. 30, 1995